

NOV 5 1991

CERTIFIED MAIL

Dear Applicant:

We have completed our review of your application for recognition of exemption from federal income tax under section 501(c)(7) of the Internal Revenue Code.

The information submitted indicates that you are incorporated under the laws of [REDACTED] exclusively for pleasure, recreation and other similar nonprofitable purposes, as contemplated by section 501(c)(7) of the Internal Revenue Code.

Your Articles of Incorporation also indicate your purposes will be to provide for the management, maintenance, care and architectural control of the lots and common area of the real estate known as [REDACTED] as described in the Declaration and to promote the health, safety and welfare of the residents within the above-described property and any additional thereto as may hereafter be brought within the jurisdiction of this Association.

You have indicated that your support will come from dues paid by the homeowners of the association.

You have indicated in your application that your activities will be to secure hazard insurance for the common grounds of the subdivision, to work to comply with [REDACTED]

[REDACTED] which requires subdivisions to disclose all pertinent financial data to prospective buyers of homes in the subdivision and shall hold architectural control of lots and common areas.

Section 501(c)(7) of the Internal Revenue Code provides for the exemption from federal income tax of Clubs organized for pleasure, recreation and other nonprofitable purpose, substantially all of the activities of which are for such purposes and no part of the net earnings of which inures to the benefit of any private shareholders.

Code	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer
Surname	[REDACTED]	[REDACTED]	[REDACTED]				
Date	9-6-91	9-6-91	11/2/91				

Regulations section 1.501(c)(7)-1(a) stipulates that an organization will be recognized as having exemption under section 501(a), and being described under section 501(c)(7) as a club, when organized and operated exclusively for pleasure, recreation and other nonprofitable purposes, but does not apply to any club if any part of its net earnings inures to the benefit of any private shareholder. In general, this exemption extends to social and recreation clubs which are supported solely by membership dues, fees and assessments. However, a club otherwise entitled to exemption will not be disqualified because it raised revenue from members through the use of club facilities or in connection with club activities.

Regulations section 1.501(c)(7)-1(b) states, a club which engages in business such as making its social and recreational facilities available to the general public or by selling real estate, timber or other products, is not organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, and is not exempt under section 501(a). Solicitation by advertisement or otherwise for public patronage of its facilities is prima facie evidence that the club is engaging in business and is not being operated exclusively for pleasure, recreation, or social purposes. However, an incidental sale of property will not deprive a club of its exemption.

Revenue Ruling 70-32 1970-1, C.B. 132, considered the application of a nonprofit flying club which was seeking tax-exempt status under section 501(c)(7) of the Code. The service held that due to the fact that the organization did not provide evidence of a regular social or recreational program at which it could be determined that significant commingling of its membership takes place, the organization did not qualify for exemption from federal income tax under section 501(c)(7) of the Code.

Our review of the activities of your organization and other information submitted indicates that your purposes and activities are similar to those of a homeowner association. Section 528 of the Internal Revenue Code provides guidelines for organizations under this section.

Based on the information submitted, we have determined that you do not meet the operational requirement for an organization described under section 501(c)(7) of the Internal Revenue Code.

You are required to file federal income tax returns on form 1120 for each year that you have been in existence.

[REDACTED]

If you do not accept our findings, we recommend that you request a conference with a member of our Regional Office of Appeals. Your request for a conference should include a written appeal giving the facts, law, and any other information to support your position as explained in the enclosed Publication 892. You will be contacted to arrange a date for a conference. The conference may be held at the Regional Office, or if you request, at any mutually convenient District office. If we do not hear from you within 30 days of the date of this letter, this determination will become final.

Sincerely yours,

[REDACTED]

District Director

Enclosures: Form 1120-H  
Publication 588  
Publication 892